



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: May 6, 2008

TO: Mayor and Councilmembers

FROM: Treasury Division, Finance Department

SUBJECT: March 31, 2008, Investment Report And March 31, 2008, Fiscal Agent Report

RECOMMENDATION: That Council:

A. Accept the March 31, 2008, Investment Report; and

B. Accept the March 31, 2008, Fiscal Agent Report.

DISCUSSION:

The City's investment reporting schedule requires staff to submit a report on the City portfolio on a quarterly basis. Therefore, this report will cover investment activity for January through March, 2008.

During the first calendar quarter, the interest rate environment continued to be very unsettled due to the turmoil in the mortgage market. The Federal Reserve Bank's Open Market Committee lowered the Federal Funds Rate by a total of 200 basis points (2.00%) during the quarter; 75 basis points (0.75%) on January 22, 2008 from 4.25% to 3.50%, 50 basis points (0.50%) on January 30, 2008 from 3.50% to 3.00%, and again on March 18, 2008 by 75 basis points (0.75%) from 3.00% to 2.25%. At the same time, the Fed lowered the Discount Rate 225 basis points, to 2.50% from 4.75%. The Fed had previously lowered the Discount Rate on December 11th by 25 basis points to 4.75% from 5.00%. All of these interest rate reductions were intended to ease the "credit

Date	Fed Funds Rate		Discount Rate	
	Change	New Level	Change	New Level
12/11/2007	-0.25%	4.25%	-0.25%	4.75%
1/22/2008	-0.75%	3.50%	-0.75%	4.00%
1/30/2008	-0.50%	3.00%	-0.50%	3.50%
3/16/2008			-0.25%	3.25%
3/18/2008	-0.75%	2.25%	-0.75%	2.50%

crunch" brought on by the turmoil in the mortgage loan sector.

Investment Activity

As shown in the table on the next page, the City invested \$12.25 million during the quarter. Purchases consisted of \$10

U.S. Treasury Market					
	12/31/2007	1/31/2008	2/29/2008	3/31/2008	Cumulative Change
3 Month	3.32%	1.94%	1.84%	1.32%	-2.00%
6 Month	3.50%	2.05%	1.82%	1.48%	-2.02%
1 Year	3.27%	2.06%	1.69%	1.59%	-1.68%
2 Year	3.05%	2.12%	1.62%	1.58%	-1.47%
3 Year	3.02%	2.22%	1.83%	1.76%	-1.26%
4 Year	3.23%	2.51%	2.15%	2.10%	-1.13%
5 Year	3.44%	2.79%	2.47%	2.44%	-1.00%
10 Year	4.02%	3.59%	3.51%	3.41%	-0.61%
30 Year	4.45%	4.32%	4.40%	4.29%	-0.16%
LAIF	4.80%	4.62%	4.16%	3.78%	-1.02%

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million of “AAA” rated, callable Federal Agency securities, and \$2.25 million of corporate notes (Berkshire Hathaway Finance Corporation). \$6 million of “AAA” rated Federal Agency securities were called during the quarter, and the \$6 million of maturities also consisted of “AAA” rated Federal Agency securities. The rate at which the City earned interest at LAIF was 4.18% for the quarter ended March 31, 2008. In order to protect the portfolio from declining interest rates, staff expects to continue reinvesting in the two to five-year range during the next quarter.

Issuer	Face Amount	Purchase Date	Final Maturity	Call Date	Yield To Call	Yield To Maturity
Purchases:						
Federal Home Loan Mortgage Corp (FHLMC)	\$ 2,000,000	01/09/08	01/09/12	01/09/09	4.250%	4.250%
Berkshire Hathaway Finance Corp (BRK)	2,250,000	01/15/08	01/15/10	-	-	3.630%
Federal Farm Credit Bank (FFCB)	2,000,000	02/01/08	02/01/13	02/01/10	3.790%	3.790%
Federal Home Loan Bank (FHLB)	2,000,000	02/13/08	02/13/13	08/13/08	5.246%	4.001%
Federal National Mortgage Assn (FNMA)	2,000,000	03/05/08	03/05/13	03/05/10	4.100%	4.100%
Federal Home Loan Mortgage Corp (FHLMC)	2,000,000	03/26/08	03/26/13	03/26/09	4.200%	4.200%
Total Purchases	\$ 12,250,000					
Calls:						
Federal National Mortgage Assn (FNMA)	\$ 1,000,000	01/18/06	01/18/11	01/18/08	5.169%	5.130%
Federal Home Loan Bank (FHLB)	2,000,000	10/27/05	10/27/08	01/27/08	5.000%	5.000%
Federal Home Loan Bank (FHLB)	1,000,000	01/14/05	07/14/08	02/14/08	4.000%	4.000%
Federal Home Loan Bank (FHLB)	2,000,000	12/04/07	05/18/09	03/10/08	4.473%	4.323%
Total Calls	\$ 6,000,000					
Maturities:						
Federal National Mortgage Assn (FNMA)	\$ 2,000,000	01/26/06	01/18/08	-	-	4.655%
Federal National Mortgage Assn (FNMA)	2,000,000	02/25/05	02/25/08	-	-	4.000%
Federal Home Loan Bank (FHLB)	2,000,000	11/08/06	03/24/08	-	-	5.140%
Total Maturities	\$ 6,000,000					

Summary of Cash and Investments

During the quarter, the City's book rate of return decreased by 25.6 basis points, from 5.032% at December 30, 2007 to 4.776% at March 31, 2008. The average days to maturity increased from 487 to 542.

Mo. Ended	Yield	Days to Maturity
12/31/2007	5.032%	487
1/31/2008	4.901%	479
2/29/2008	4.842%	519
3/31/2008	4.776%	542

Portfolio Market Gains/Losses

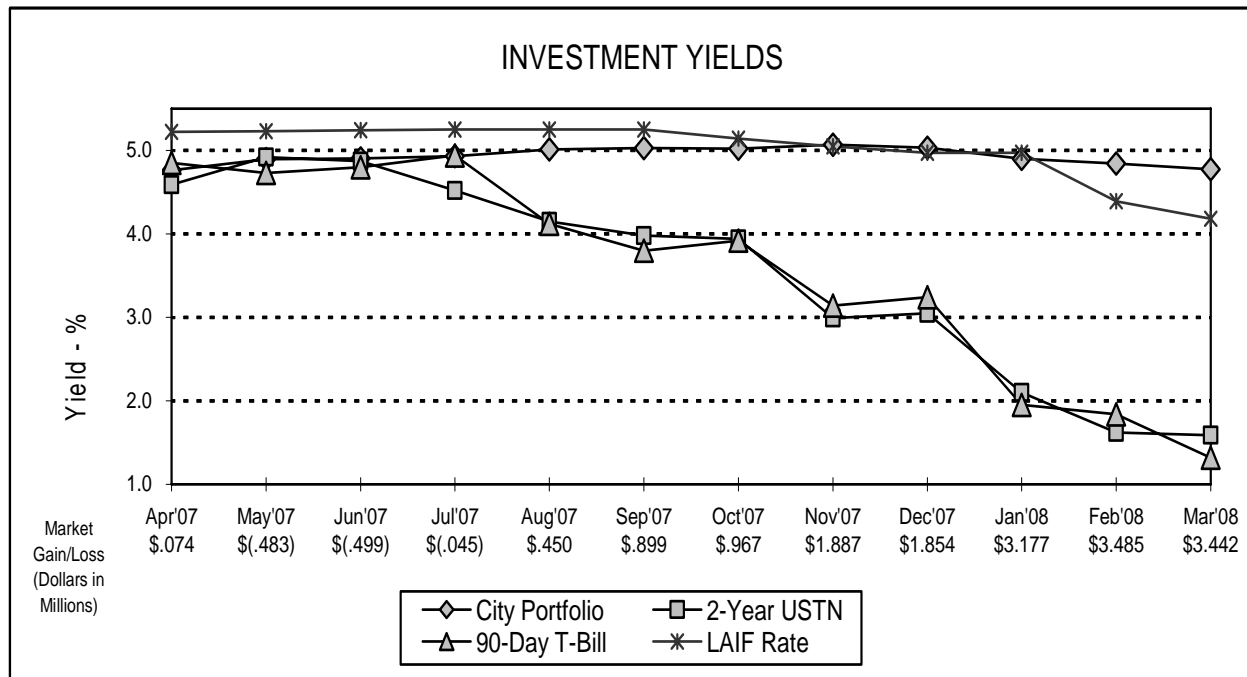
As shown on the Investment yields graph below, the City's portfolio reflected a market gain at March 31st. This is the result of the continued decrease in market yields during the quarter.

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Those securities with a market loss of 3% and/or the five securities with the largest percentage of unrealized losses are typically reported in the table below. However, due to the decrease in market yields, none of the securities in the City's portfolio have an unrealized loss as of March 31, 2008.

Issuer	Face Amount	Maturity	\$ Mkt Loss	% Mkt Loss
There are no securities with an unrealized market loss.				

Additional Reporting Requirements

The following confirmations are made pursuant to California Code Sections 53600 et seq.: (1) the City's portfolio as of March 31, 2008 is in compliance with the City's Statement of Investment Policy; and (2) there are sufficient funds available to meet the City's expenditure requirements for the next six months.

Fiscal Agent Investments

In addition to reporting requirements for public agency portfolios, a description of any of the agency's investments under the management of contracted parties is also required on a quarterly basis. Attachment 2 includes bond funds and the police and fire service retirement fund as of March 31, 2008.

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ATTACHMENTS: 1. March 31, 2008, Investment Report
 2. March 31, 2008, Fiscal Agent Report

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SUBMITTED BY: Robert Peirson, Finance Director

APPROVED BY: City Administrator's Office